

## Message Text

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APPROVED BY M/MS:RGMAYS,JR.

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EB/OT/STA - MR. KEMPE (PHONE)

EB/EX - MISS WILSON (INFO)

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FM SECSTATE WASHDC

TO AMCONSUL HONG KONG

AMEMBASSY TAIPEI

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E.O. 11652 N/A

TAGS: OGEN, HK, TW

SUBJECT: OPRED - TREASURY PROPOSAL TO TRANSFER CUSTOMS  
POSITION FROM HONG KONG TO TAIWAN

1. CITING TAIWAN'S RAPID ECONOMIC GROWTH AND ITS EXPANDING  
TRADE WITH THE UNITED STATES, TREASURY/CUSTOMS HAS REQUESTED  
UNDER SECRETARIES COMMITTEE AUTHORIZATION TO TRANSFER A  
VACANT CUSTOMS POSITION FROM HONG KONG TO TAIWAN.

2. EXCERPTS FROM TREASURY LETTER FOLLOW:

QTE TAIWAN'S RAPIDLY EXPANDING ECONOMIC GROWTH OVER  
THE YEARS (1963 TO 1972 AVERAGED 10.3 PER CENT ANNUALLY),  
AND THE RESULTANT TRADE INCREASE WITH THE UNITED STATES HAS  
CREATED AN URGENT NEED FOR THE ESTABLISHMENT OF A U. S.  
CUSTOMS OFFICE AT TAIPEI, TAIWAN, REPUBLIC OF CHINA.

PROJECTIONS MADE BY THE U. S. DEPARTMENT OF COMMERCE  
INDICATE THAT TAIWAN WILL BE THE SIXTH MOST IMPORTANT  
TRADING PARTNER TO OUR COUNTRY WITHIN THE NEXT THREE YEARS.  
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DURING 1971, THE UNITED STATES TOOK 41.4 PER CENT OF

TAIWAN'S TOTAL OF 2 BILLION DOLS. WORTH OF EXPORTS AND IN 1972, TAIWAN'S TRADE WITH THE UNITED STATES INCREASED 46 PER CENT OVER THE PREVIOUS YEAR. ALSO, THE TAIWAN COUNCIL FOR INTERNATIONAL ECONOMIC COOPERATION AND DEVELOPMENT PROJECTS 5.6 BILLION DOLS. WORTH OF EXPORTS BY 1976-- WITH MOST OF IT TO THE UNITED STATES.

IN ORDER FOR CUSTOMS TO PROTECT THE UNITED STATES REVENUES DERIVED FROM IMPORTED GOODS AND TO ENFORCE THE VARIOUS OTHER LAWS, ALL OF WHICH ARE CLOSELY RELATED TO FOREIGN TRADE, IT IS NECESSARY THAT U. S. CUSTOMS OFFICERS CONDUCT INQUIRIES AT LOCATIONS WHERE SUCH GOODS ARE MANUFACTURED, ASSEMBLED OR EXPORTED. OUR PRESENT ARRANGEMENTS TO PERFORM THESE DUTIES ARE NO LONGER ADEQUATE AS THEY HAVE BEEN SURPASSED BY TAIWAN'S UNPRECEDENTED ECONOMIC BOOM. ASIDE FROM EXTENSIVE LOSS OF REVENUES, OUR ENTIRE ENFORCEMENT SHIELD IS CONSIDERABLY WEAKENED. THIS IS DUE TO THE INABILITY OF OUR HONG KONG-BASED CUSTOMS REPRESENTATIVES (WHO ARE PRESENTLY COVERING THE TAIWAN AREA) TO ABSENT THEMSELVES FROM THEIR MAIN DUTY STATION FOR A PROLONGED PERIOD OF TIME WITHOUT SERIOUS WORK LOAD REPERCUSSIONS. THE FRAUD POTENTIAL RELATED TO EXPORTS IS ENORMOUS, AND PERHAPS CAN READILY BE JUDGED BY THE EVER INCREASING NUMBER OF REQUESTS FOR FOREIGN INQUIRIES GENERATED BY OUR STATESIDE CUSTOMS OFFICERS WHO REQUIRE INFORMATION FROM TAIWAN ON SUSPECTED UNDERVALUATION, DUTIABLE ASSISTS (TOOLING COSTS, MOLDS, ENGINEERING, ETC.), "807 MERCHANDISE" (ASSEMBLY OF GOODS WITH AMERICAN COMPONENTS), QUOTA REQUIREMENTS, COUNTRY OF ORIGIN AND, NOT TO MENTION, DUMPING AND COUNTERVAILING DUTY CASES. IN THE AREA OF UNDERVALUATION AND NON-DECLARATION OF DUTIABLE ASSISTS LIE OUR MOST VULNERABLE POINTS AND UNLESS ALL FACTS RELATING TO THE EXPORTS ARE AVAILABLE TO THE STATESIDE CUSTOMS OFFICERS WHO ARE APPRAISING THE MERCHANDISE, WE SUSTAIN CONSIDERABLE LOSS OF REVENUES.

HIGH LABOR COSTS, UNIONS AND TAX PROBLEMS AT HOME HAVE ENTICED THIRD COUNTRY MANUFACTURERS TO TAKE ADVANTAGE OF TAIWAN'S POLICY OF ENCOURAGING FOREIGN INVESTMENTS (48 UNCLASSIFIED

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PERCENT OF ALL FOREIGN INVESTMENTS ARE AMERICAN). A NUMBER OF AMERICAN SUBSIDIARIES AND OTHER FOREIGN FIRMS HAVE BEEN ESTABLISHED IN TAIWAN AND MANY OF THESE HAVE BRANCH OFFICES, AGENTS, SUBCONTRACTORS OR RAW MATERIAL SUPPLIERS INTO OTHER SOUTH-EAST ASIAN COUNTRIES, WHICH CREATES A HIGHLY INTERRELATED AND INTERDEPENDENT GROUP. A CONSIDERABLE NUMBER OF QUESTIONABLE TRADE ARRANGEMENTS EXIST WHEREIN THE UNITED STATES IMPORTERS SUPPLY FOREIGN MATERIALS TO THE TAIWAN

FACTORIES FOR FUTURE ASSEMBLY FOR MANUFACTURE AND ULTIMATE IMPORTATION INTO THE UNITED STATES. SUCH DETAILED INFORMATION IS PERTINENT FOR U. S. CUSTOMS OFFICERS TO HAVE FOR THE CORRECT APPRAISAL OF IMPORTED MERCHANDISE AND ASSESS-

MENT OF THE PROPER RATE OF DUTY.

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THE CASE LOAD FOR TAIWAN HAS INCREASED STEADILY OVER THE PAST FEW YEARS AND HAS NOW REACHED PROPORTIONS WHICH REQUIRE ADDITIONAL PERSONNEL TO BE ASSIGNED ON TDY IN ORDER TO REDUCE THE BACKLOG OF CASES WHICH CAN NO LONGER BE HANDLED BY OUR OUTMODED PRESENT ARRANGEMENTS. OPENED AND CLOSED CASES FOR TAIWAN BY FISCAL YEARS ARE AS FOLLOWS:

	1970	1971	1972	1973
OPEN	41	49	72	115
CLOSED	35	50	33	76

CASES OPEN BETWEEN JULY 1, 1973 AND OCTOBER 31, 1973 EQUAL 77

OPEN CASES ON HAND AS OF OCTOBER 31, 1973 EQUAL 146

IN 1973 A CUSTOMS OFFICER HAD TO BE SENT FROM THE UNITED STATES ON A 3-MONTH TDY TO THE FAR EAST TO HANDLE PRIMARILY THE TAIWAN INQUIRIES. IN ADDITION WE SENT CUSTOMS REPRESENTATIVES FROM OUR TOKYO OFFICE TO TAIWAN TO HANDLE 3 DUMPING VERIFICATIONS AND ONE COUNTERVAILING DUTY CASE.

AT THE PRESENT TIME, FOREIGN INQUIRIES RELATING TO UNCLASSIFIED

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TAIWANESE FIRMS ARE SENT TO OUR SENIOR CUSTOMS REPRESENTATIVE, HONG KONG, WHO HAS THE GEOGRAPHICAL JURISDICTION OVER TAIWAN. HE RETAINS THESE INQUIRIES UNTIL SUCH TIME AS HE IS ABLE TO LEAVE HIS HONG KONG DUTIES IN ORDER TO PROCESS THE MOST URGENT CASES IN TAIWAN. THIS METHOD WAS PRACTICAL IN THE PAST, BUT DUE TO THE INCREASING WORK VOLUME OF OUR HONG KONG OFFICE, IT IS NO LONGER VIABLE. ASIDE FROM TRANSPORTATION AND PER DIEM EXPENSES, EVERY TRIP TO TAIWAN DEPRIVES THE HONG KONG OFFICE OF ITS HARD PRESSED INVESTIGATIVE STAFF. THE INCREASE IN THE HONG KONG CASE LOAD OVER THE YEARS HAS BEEN AS FOLLOWS:

	1970	1971	1972	1973
OPEN	262	286	327	323

CLOSED 258 281 240 320

CASES OPENED BETWEEN JULY 1, 1973 AND OCTOBER 31,  
1973 EQUAL 108

OPEN CASES ON HAND (WITHOUT TAIWAN) AS OF OCTOBER 31,  
1973 EQUAL 163

ALMOST HALF OF THE CASES ASSIGNED TO OUR HONG KONG OFFICE  
ARE IN TAIWAN.

THE ESTABLISHMENT OF A U. S. CUSTOMS OFFICE IN TAIWAN  
WOULD NOT ONLY ACCOMPLISH CASEWORK MORE COMPLETELY AND  
EXPEDITIOUSLY, BUT WOULD ALSO ALLOW THE ASSIGNED CUSTOMS  
REPRESENTATIVE TO FORM LIAISON WITH OTHER U. S. GOVERNMENT  
OFFICES WITHIN THE EMBASSY AND COUNTERPART AGENCIES OF THE  
HOST COUNTRY.

AS THE TRADE WITH TAIWAN INCREASES, OBVIOUSLY SO WILL  
CUSTOMS PROBLEMS. THE BUSINESS COMMUNITY IN TAIWAN DIRECTS  
THEIR PRESENT EXPORT RELATED PROBLEMS TO THE COMMERCIAL  
SECTION AT THE U. S. EMBASSY IN TAIPEI. HOWEVER, QUESTIONS  
REQUIRING SPECIALIZED CUSTOMS EXPERTISE ARE FREQUENTLY  
REFERRED BY THEM TO THE SENIOR CUSTOMS REPRESENTATIVE,  
HONG KONG. THEREFORE, A FULL-TIME CUSTOMS REPRESENTATIVE IN  
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TAIPEI WOULD ALSO ESTABLISH AN EFFICIENT AND IMMEDIATE LINK  
WITH THE TAIWAN EXPORTING COMMUNITY. ENDQTE

3. ACTION REQUESTED: COMMENTS OF THE CHIEF OF MISSION IN  
TAIPEI AND THE PRINCIPAL OFFICER IN HONG KONG ON THE  
TREASURY PROPOSAL, INCLUDING ANY IMPACT ON TAIPEI'S ADMIN-  
ISTRATIVE SUPPORT CAPABILITIES. KISSINGER

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